

## STATE-LOCAL REVENUES SCENARIO

**PROBLEM:** Town budgets are under a lot of fiscal pressure. The slow-to-recover housing market has left many with a stagnant or depreciating tax base, while the cost of providing public services continues to increase. In order to continue providing the same level of services, towns are forced to squeeze more tax dollars out of their stagnant or depreciating tax bases by taxing homeowners and businesses at higher rates.

**SCENARIO:** To help reduce the pressure on local budgets, property owners, and businesses, the Finance Committee is considering the following three proposals to help towns generate new revenue:

1. Allow towns to impose a new local 0.25% sales tax added to the state's 6.35% rate.
2. Direct 0.25% of the existing 6.35% sales tax to the towns in which the sales were made.
3. Set aside revenue from 0.25% of the existing 6.35% sales tax for distribution to the state's regional planning organizations (i.e., regional councils of government, regional councils of elected officials, and regional planning agencies).

**Towns** have long sought to diversify their revenue sources as a way to reduce their reliance on the property tax. **Suburban towns** that host large numbers of retail outlets have the most to gain from a local-option sales tax. They prefer options 1 and 2 because they allow them to capture tax dollars from people who come into town to shop, thus offsetting the costs they incur in providing services to these congested areas. **Rural towns**, on the other hand, stand to gain very little from options 1 and 2. They would prefer to have the revenue distributed regionally so that they too receive a share. If either option 1 or 2 is enacted, they may feel pressured to rezone land for retail uses to generate additional revenue. The **cities** are divided on the issue.

**Local leaders** are urging you to take some action because they fear they may have to start cutting critical local services to balance their budgets.

The **State** has an interest in keeping municipalities fiscally sound, but it would prefer an option that does not tap state funds. It is concerned that, after the sales tax was increased in 2011, another increase could hurt the state's competitiveness in the region and limit its ability to raise tax rates in the future. It also worries that a local sales tax could cause competition among local governments for new retail developments, which goes against its policy of promoting regionalism and smart growth. Some **legislators** fear that providing a new revenue source without imposing spending controls would not relieve the property tax burden on homeowners and businesses.

**Regional planning organizations** support option 3. **Land conservancy groups** have also voiced their concerns that a local sales tax could promote sprawl by encouraging towns to zone for retail developments. Your **constituents** are flooding your inbox and voicemail asking you to oppose any sales tax increase. Some have also suggested that the state should impose a property tax cap on towns to prevent any future property tax hikes.

**PLAYERS:** State, towns, regional planning organizations, constituents, retail industry.

**QUESTIONS:** Which proposal would you support? Would you suggest any changes?